UNIT 15 INDIA'S EXPORT-IMPORT POLICY

Objectives

This unit helps you to understand:

- what is trade policy;
- kinds of trade policy;
- phases of liberalisation in trade policies in the process of economic development;
- trends in India's exim policies;
- salient features of India's import regime during 1950-91;
- characteristics of India's export promotion policies; and
- India's Trade Policy reforms in the 90s.

Structure

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15.1 INTRODUCTION

Export-Import (EXIM) Policy alternatively known as Trade Policy refers to Policies adopted by a country with reference to exports and imports. Trade Policy can be free trade policy or protective trade policy. A free trade policy is one which does not impose any restriction on the exchange of goods and services between different countries. A free trade policy involves complete absence of tariffs, quotas, exchange restrictions, taxes and subsidies on production, factor use and consumption. Though free trade, theoretically, offers several advantages, in reality, particularly underdeveloped countries were at a disadvantage in such a system of international trade. As a result, in the early 20th century, international economy saw the emergence of protective trade policies.

A protective trade policy pursued by a country seeks to maintain a system of trade restrictions with the objective of protecting the domestic economy from the competition of foreign products. Protective trade policy constituted an important plank in the commercial policies of underdeveloped countries during the 50s, 60s and 70s and to some extent in the 80s. Many of the underdeveloped countries countinue to have protective trade policies even today.

Trade policies may be outward looking or inward looking. An outward looking trade policy encourages not only free trade but also the free movement of capital, workers, enterprises and students, a welcome to the multinational enterprise, and an open system of communications. An inward looking trade policy stresses the need for a country to evolve its own style of development and to be the master of its own fate, with restrictions on the movement of goods, services and people in and out of the country. An inward looking trade policy encourages the development of indigenous technologies appropriate to a country's resource endowment. Given these, a developing country may adopt commodity specific trade policies such as the following:

1. **Primary Outward Looking Policies:** Aimed at encouraging agricultural and raw material exports.
2. **Secondary Outward Looking Policies:** Aimed at promoting manufactured exports.
3. **Primary Inward Looking Policies:** Objective is to achieve agricultural self sufficiency.
4. **Secondary Inward Looking Policies:** Objective is attaining manufactured commodity self-sufficiency through import substitution.

Trade Policy will strongly influence the direction, trend and growth of foreign trade of a country. This, in turn, will have a bearing on the economic development process. Therefore, trade policy is an important economic instrument which can be used by a country, with suitable modifications from time to time, to achieve its long-term objectives.

15.2 INDIA'S EXIM POLICY : A BACKDROP

India's experience of the colonial past had a major influence on exim policy in the initial decades after independence. India's strategy towards trade policy was driven by perceived foreign exchange scarcities and the desire to ensure that scarce foreign exchange is used only for essential purposes for economic development. Industrialisation and self-sufficiency in essential commodities were the important objectives of India's trade policy. This was because it was felt that dependence on other, more powerful countries for imports of essential commodities would lead to political dependence on them as well.

This was succinctly brought out by the National Planning Committee (NPC) in 1946 set up by the Indian National Congress, under the Chairmanship of the late Jawaharlal Nehru.

> "In the context of the modern world, no country can be politically and economically independent, even within the framework of international interdependence, unless it is highly industrialised and has developed its power resources to the utmost. Nor can it achieve or maintain high standards of living and liquidate poverty without the aid of modern technology in almost every sphere of life. An industrially backward country will continually upset the world equilibrium and encourage the aggressive tendencies of more developed countries. Even if it retains its political independence, this will be nominal only and economic control will tend to pass to others."

Earlier the NPC had said that, "The objective of the country as a whole was the attainment, as far as possible, of national self-sufficiency. International trade was certainly not excluded, but we were anxious to avoid being drawn into the whirlpool of economic imperialism."

These laid the broad framework for the formulation of EXIM policy in the subsequent years. On the whole, import substitution and protection to domestic industrialisation through a system of tariff and non-tariff controls became the highlights of India's EXIM Policy for most of the period during 1950-51 to 1990-91, however, India's exim policy has undergone remarkable liberalisation, as part of the overall economic liberalisation process.

15.3 THE FOREIGN TRADE REGIME : ANALYTICAL PHASES AND CHANGES OVERTIME

J N Bhagwati and A Krueger, in their comparative analysis of the impact of foreign trade regimes and economic development in a number of countries, defined a set of analytical phases with reference to the EXIM policy of a country. These phases in the foreign trade regime were designed essentially as a classificatory and descriptive device to capture meaningfully the evolution of foreign trade regime in terms of its restrictionist content and the dimensions and pattern of its use of control and price instruments. There are broadly five phases which are as follows:

Phase I : Characterised by the systematic and significant imposition of quantitative restrictions (QR). It might start in response to an unsustainable balance of payments deficit. Throughout Phase I, controls are generally maintained and often intensified.

Phase II : Characterised by continued reliance upon quantitative restrictions and generally increased restrictiveness of the entire control system. Phase II is distinguished by two additional and related aspects of the QR system, both relatively unimportant during Phase I.

(1) The detailed workings of the control system become increasingly complex, and
(2) Price measures are adopted to address the functioning of the control system.

Both these characteristics of Phase II arise from dissatisfaction with the results of an undifferentiated system and are often the result of many small decisions rather than an overall policy design.

Price measures are introduced to both exports and imports. The continuation or intensification of foreign exchange shortage leads to the recognition that additional export earnings would be desirable. Rebate schemes, import replenishment schemes, special credits for exporters, and a variety of other devices may be instituted that offset part or all of the discrimination against exports implicit in an overvalued exchange rate. As for imports, price measures are also adopted to absorb part of the excess demand for imports. Tariffs may be increased or surcharges added to the cost of importing.

The following aspects of the price situation in Phase II are then evident :
(1) the exchange parity is overlaid by tariffs and subsidies, levied in lieu of formal parity change, (2) domestic currency is overvalued at the current parity plus trade tariffs and subsidies, implying a premium on imports.

Phase III : In this phase, attempts are made to systematise the changes introduced during the previous phase: It may consist of a mere "tidying-up" operation directed at replacing the diverse import premiums by reasonably uniform tariffs such that the differential incentive effects caused by diverse premiums on different imports are greatly reduced or virtually eliminated.

Alternatively, the tidying-up operation may replace the existing tariffs and export subsidies with a formal parity change, the result being that the effective exchange rates on exports and imports do not change much but the dispersion of tariffs is replaced by uniform devaluation.

On the other hand, Phase III may take the form of a devaluation cum liberalisation package. Such a package may have a gross devaluation large enough to leave a net devaluation despite the removal of trade tariffs and subsidies, and measures of import liberalisation.

Phase IV : The continued liberalisation in Phase III leads to the emergence of Phase IV. There will be consistent decline in QR and import tariffs. The effective exchange rate for exports will come closer to the effective exchange rate for imports.

Phase V : The transition into Phase V occurs when the exchange regime is virtually liberalised. There will be full convertibility on current account and quantitative restrictions will not be employed as a means of regulating the balance of payments. Thus, Phase V represents a total alternative to the QR regimes of Phases I and II. The pegged exchange rate will be at its equilibrium level and a flexible exchange rate policy will be in operation.

The application of these phases to the exim policies of India since independence would help to understand the policy developments in a proper perspective. Recently, T.N. Srinivasan has applied these phases for India's exim policy for the period ranging from 1950 to 1992.

Activity 1

Develop a case study for a hypothetical developing country which could pass through Phase I to Phase V (Analytical phases of Bhagwati and Krueger) in its foreign trade regime, in the process of economic development.

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15.4 INDIA'S EXIM POLICY : PHASES AND CHANGES

In the early fifties (1950-56) there was a rough equilibrium in the balance of payments, with import demand more or less equalling export earnings. During this period, there was no clear exim policy and import restrictions of any kind were not in use. The conditions were, more or less, similar to Phase IV.

In the second half of the fifties (1956-61), due to heavy industry oriented industrial planning, the rapid rise in imports put pressure on India's balance of payments. The Government imposed quantitative restrictions on imports. The quantitative restrictions were selective so as to encourage the development of particular industries through import licenses. Import substitution was stimulated while exports were not considered a line of activity to be stimulated. Thus, this period resembled the characteristics of Phase I.

In the early sixties (1961-66) quantitative restrictions for imports continued. At the same time, efforts were made to boost exports by creating a favourable atmosphere to export industries, diversification of export markets and the development of export support services. Export subsidisation was introduced in 1962 primarily to offset the penalties that quantitative restrictions imposed, in effect, on exports. This period could be classified under Phase II.

The economy entered Phase III in the second half of the 60s (1966-68) with a devaluation in June 1966 to systematise and rationalise the export incentive system. At the same time, export subsidies were reduced, export duties imposed, and import duties were reduced. The net devaluation after allowing for these changes was, on an average, less than the gross devaluation of 57.5 percent and varied among commodities. According to Bhagwati and Srinivasan, the total net devaluation on the trade account was 21.6 percent for exports and 42.3 percent for imports. Consequently, the net effect was a further stimulation of import substitution over export production.

At the end of sixties up to the mid seventies (1968-75) the hesitant steps towards liberalisation introduced with devaluation were abandoned. The country moved back to Phase II. Export subsidies were reinstated and augmented. Import policy became increasingly restrictive and complex. This was due to various shocks which the economy experienced such as (1) refugee inflow due to Bangladesh war in 1971 (2) stagnant agricultural production resulting out of adverse weather conditions, (3) oil-price hike-shock of 1973, etc.

The scarcity of foreign exchange became more acute. A new set of restrictive measures for imports was introduced every year. Import allocation criteria became more complex. Tariff rates escalated gradually.

The foreign exchange reserves position improved in the latter of the 70s, due to:

- increased remittances from Indians working in West Asia;
- improved agricultural production; and
- decline in public investment.

The net result was a relaxation in the severity of import control regime during 1975-85, signifying the re-entry into Phase III. Import allocation rules were made simpler. Protective quotas, however, remained intact and domestic industry continued to be completely shielded from import competition.

In April 1985, in a significant departure, the Government announced new Export-Import Policy for a period of three years. The objective was to bring some stability to the policy and thereby reduce the uncertainty about year to year changes that exporters and importers faced. However, in reality, this did not restrain the Government from announcing changes in the exim policy from time to time.

Although the stringency of the import regime did not dilute substantially, the two three-year policies (i.e., Exim policies of 1985-88 and 1988-91), did represent some major simplifications. In particular, the number of items in the category of Open General Licence (OGL) for capital goods imports increased from nil in 1975 to over 1,100 items in the 1988-91 policy. Similarly, many intermediate goods were put in the OGL category. Thus policy changes that occurred in the latter half of the 80s till 1991 (1986-91) characterised the continuance of Phase III, which began in 1975.

However, it was since 1991 that radical changes were introduced in India's exim policy. There has been a gradual and steady curtailment of import tariffs

and liberalisation of quantitative restrictions. The rupee has been made almost fully convertible on the current account. There are indications that the rupee will be made convertible on the capital account within a definite time period. All these signify that India has entered Phase IV with regard to the foreign trade regime.

Broadly, India's trade policy can be aggregated into essentially two categories:

(i) Those that are associated with inducing import substitution as well as those that are import repressive or import rationing, and

(ii) Those that influence the level and composition of exports of goods and services.

Over the years, trade policy has undergone fundamental shifts to correct the earlier anti-export bias through the withdrawal of quantitative restrictions (QRs), reduction and rationalization of tariffs, liberalization in the trade and payments regime and improved access to export incentives, besides a realistic and market based exchange rate.

15.5 INDIA'S IMPORT REGIME (1950-89) : MAJOR FEATURES

India's import regime had two major kinds of protective barriers: (i) Non-tariff controls and (ii) Tariffs.

Non-Tariff Controls: Non-tariff controls were the principal means of regulating imports and protecting local industries. These controls till the 90s included the (a) import licensing system, (b) canalisation, (c) actual user policy and (d) phased manufactured programmes.

a) **Import Licensing System:** This system devides imports into three categories:

1. Consumer goods
2. Capital goods
3. Intermediate raw materials, components, spare parts and supplies.

Imports of consumer goods are generally banned, excluding those which are imported by canalising agencies of the Government. These products may be judged by the Government as essential on the grounds that they are not produced locally or domestic production is insufficient to meet the local demand. e.g.: edible oil, certain drugs and medicines, kerosene, and food grains.

Capital goods are divided into a "restricted category" and an "Open General Licence" (OGL) category. OGL capital goods can be imported without a licence, provided the importing firm is the actual user of the machinery. An import license is required for the import of any item on the restricted list and also for any item not on the OGL list, even if it is not on the restricted list.

Finally, intermediate goods imports are divided into banned, restricted, limited permissible and OGL categories. Intermediate goods that are not on the first three lists, nor on the separate lists of canalised items, could be imported without a licence.

b) **Canalisation:** Canalising agencies are another means through which the Government exercises control over imports. These organisations are the sole importers of products listed in the EXIM Policy. The most important canalised products and the respective agencies are given in Table 15.1.

Table 15.1: Canalisation : Items and Agencies

Item		Canalising Agency
1.	Crude Oil, and Petroleum Products	Indian Oil Corporation (I.O.C.)
2.	Iron and Steel, non-ferrous metals and fertilisers	Minerals and Metals Trading Corporation (M.M.T.C.)
3.	Edible oils, natural rubber, Sugar, news print, and Cement	State Trading Corporation (S.T.C.)
4.	Scrap Metal	Metal Scrap Trading Corporation (M.S.T.C.)
5.	Cereals	Food Corporation of India (F.C.I.)
6.	Cotton	Cotton Corporation of India (C.C.I.)

Canalised importers account for a significant share in total imports including Petroleum, Oil and Lubricants (P.O.L.). Policies on the importing, pricing and distribution of the most important canalised products are determined and supervised by the concerned ministries or departments and others by two committees chaired by the Chief Controller of Imports and Exports. The activities of the canalising agencies are an integral part of the system of non-tariff discretionary controls over imports.

c) **Actual User Policy:** This policy disallows imports for resale by excluding intermediaries from importing. The policy was introduced in the early 70s and became complete in April 1977 with the abolition of the category of "Established Importers" who were earlier eligible for import licenses. As per this policy, only the actual user of a capital good or intermediate products be allowed to import such goods, through import licenses.

d) **Phased Manufacturing Programme (P.M.P.):** As per PMP, the concerned firm agrees to progressively replace imported materials, parts and components with materials, parts and components produced in-house or by other Indian firms. The PMPs accompany industrial licences in a wide range of industries involving assembly of parts and components notably, vehicle, machinery and electronics industries.

In order to ensure that a firm sticks to PMP, the import of all parts and components by that firm requires prior clearance by the sponsoring authority for the industry, which attests that the imports are not included in the list of products that should be locally sourced under the PMP. The PMP procedures, therefore, amount to a separate set of quantitative import controls which apply to many intermediate products, including those which appear on OGL lists, and which in theory are importable without restriction. Moreover the controls continue to remain in force, since once the required level of indigenisation is achieved, surveillance continues to ensure that firms do not reduce the agreed indigenisation levels.

Tariffs: The tariffs consist of:

(a) basic customs duties, mostly *ad valorem,* applied to the c.i.f. price of the import.

(b) an auxiliary duty applied to the c.i.f. price, and

(c) additional duties equivalent to excise taxes imposed on locally produced products, applied to the c.i.f. price plus the basic customs duty and auxiliary duty.

The basic *ad valorem* duties range from zero to 300 percent; the general auxiliary duty is 40 percent. The tariff schedule appears very simple, with quite uniform basic customs duties. But in practice, tariff based protection is extremely complex, owing to a large number of exemptions for various products for all three components.

It is difficult to generalise the level and structure of tariffs because of various kinds of exemptions. However, the general level of duties was extremely high absolutely as well as relatively, before allowing for exemptions, (Table 15.2).

Table 15.2: Tariff Levels in India and other Developing Countries (Nominal Tariff Rates, 1985)

(% of value)

Country	Intermediate Goods	Capital Goods	Consumer Goods	Manufactured Goods
Hungary	14.2	15.0	22.6	20.9
Yugoslavia	18.0	20.7	20.0	19.0
Argentina	21.2	25.0	21.9	22.9
Morocco	21.6	18.1	43.0	27.3
Philippines	21.8	24.5	39.0	28.0
Mexico	25.5	23.5	32.2	24.7
Thailand	27.8	24.8	8.5	33.6
Turkey	29.4	54.9	55.3	37.1
Pakistan	75.0	73.8	127.3	89.8
China	78.9	62.5	130.7	91.2
Bangladesh	97.9	80.5	116.1	100.8
India	146.4	107.3	140.9	137.7

Source: "India Survey", *The Economist,* May 4 – 10, 1991.

Indian tariffs were much higher than tariffs in other developing countries : average Indian tariffs for intermediate, capital and consumer goods as well as for manufactured goods as a whole were much higher than in other countries.

15.6 EXPORT POLICIES AND INCENTIVES (1950-89)

Exports are subject to a licensing regime to serve a variety of objectives. A number of primary and some manufactured products are subject to export restrictions of varying intensity so as to control domestic prices. The export controls are also used to implement canalisation of some exports, to regulate exports of products subject to quotas in importing countries, to ensure minimum export prices, etc. However, the main thrust of export policies has been to promote and not to restrict exports. Further, since 1976, export taxes which were previously applied to 25 commodities were steadily removed.

In addition, the Government had recognised that manufacturers exporting to the highly competitive world market would have to be provided incentives to offset the higher cost and other disadvantages of operating in the protected and controlled domestic market. Accordingly, a wide variety of export incentives and institutions have been established.

Indian Policy incentives to promote exports can be broadly classified as under :

1. Special facilities to make the material inputs needed by exporters available, at reduced cost.
2. Free Trade Zones and Export Oriented Units.
3. Facilities for making capital equipments available, at reduced rate.
4. Incentives for and assistance with export marketing.
5. Profit tax and credit subsidies and
6. Subsidies on domestic raw materials.

Over a period of time, the Government has steadily increased and extended these incentives.

1. Special Facilities for Material Inputs

Availability of qualitative raw materials in sufficient quantity and at the right time, at competitive prices, is crucial for export growth. In India this was ensured through special import licences for exporters (known as replenishment (REP) and imprest licences) combined with duty drawback and cash compensation.

The REP and imprest licences allow the exporter to import certain restricted raw materials and components, upto a specified percentage of specified exports. The imports pay normal customs duties, but refunds can be claimed through the duty drawback scheme.

Imprest licences are issued on the basis of export contracts or on past export performance, and the materials must actually be used in exports. REP licences are issued against actual exports after they have taken place, and to the extent that imported materials are not required, the REP entitlement can be legally sold on the open market.

The duty drawback scheme allows the refund of excise, sales and other indirect taxes (apart from customs duties) included in the cost of domestically purchased raw materials. This is supplemented by the cash compensatory support (CCS) scheme, which compensates the exporter for other domestic taxes such as excise duties and sales taxes included in the cost of electricity.

Import-Export Pass Book

The scheme which was introduced on 1st January 1986, continued by EXIM Policy, 1988-91. Its aim was to streamline the import procedure for exporters by providing duty-free access to imported inputs for exporters of manufacturers. The scheme was wider in scope and more flexible than the previous advance licensing scheme.

Imports used for export production were exempted from customs duty as well as from additional duties on imports for an exporter holding Import Export Pass Book including import licence. The pass books is applicable only to registered manufactured exporters.

2. Free Trade Zones and Export Oriented Units (EOU)

Free Trade Zones or Export Processing Zones (EPZs) and EOUs are the other means which Government has adopted to promote exporters.

The rationale for establishing EPZs is that export production can be initiated without adjusting or transforming the regime of protection for companies producing for the domestic market. EPZs are treated as operating outside the domestic tariff area, and hence have the right to import all their requirements,

including capital goods and spare parts as well as raw materials, free of import licensing controls and import duties.

India was the first developing country to establish an EPZ. In 1965, one such zone was established in Kandla while in 1974 a second zone was set up — the Santa Cruz Electronic Export Processing Zone (SEEPZ) near Bombay. In 1983, a decision was taken to create four more EPZs, which came up subsequently : Madras, Kochi, Noida, near New Delhi and Falta, Calcutta.

An EPZ creates a free trade environment allowing for duty free imports of capital goods and intermediate inputs and tax free exports of manufactures. It overcomes the problem of administrative control and bureaucratic intervention. Ultimately, the objective is to attract foreign companies to establish export units.

The Export Oriented Units (EOU) scheme was implemented in 1981 to provide duty-free access to imports of all inputs for such export oriented companies and to create a single point clearance with regard to industrial licensing and foreign collaborations. A company is required to fulfill three conditions to be eligible as an EOU :

(a) its output should entirely be exported,

(b) the domestic value added content of the export value should be 20 percent at least; and

(c) export production should be under a custom bond for 10 years for products facing rapid technological change.

The contribution of EPZs and EOUs to India's exports, however, is only limited and has not made any significant progress either.

3. Availability of Capital Equipments at Reduced Rates

The liberalisation of imports of capital goods and associated tariff reductions was introduced in 1976. The objective was to make specialised and upto-date machines available and less expensive for export oriented industries such as leather, garment, hosiery, seafood, woolen textile and diamond processing industries. In 1986, the policy was broadened to other export potential industries.

4. Export Marketing

From an early stage, Government has recognised that marketing of exports is generally a more difficult task than selling in the domestic market. Many small and medium firms and even many large firms, by Indian standards, may not be able to market their products on their own, in the international market. Therefore, the Government allowed for the first time in 1960, the coming up of export houses. In 1981, in emulation of Japan and South Korea, it encouraged the development of larger trading houses.

In 1963, an Export Inspection Council (EIC) was established whose function is to conduct pre-shipment inspection to prevent the export of inferior quality products.

Over a period of time, the Government has also promoted 18 industry specific Export Promotion Councils: Apparel Export Promotion Council — to promote garment exports, Engineering Export Promotion Council — to promote engineering goods exports, etc. The Trade Development Authority (T.D.A.) and Trade Fair Authority of India (T.F.A.I.) were the other agencies promoted by the Government for export promotion. [In 1994, T.D.A. and T.F.A.I. were merged to form Indian Trade Promotion Organisation (I.T.P.O.)]. All these fall under the purview of the Ministry of Commerce.

5. Profit Tax and Credit Subsidies

Exporters had received, in one form or another, profit tax concession since the early 1960s. There were also provisions for preferential pre-shipment and post-shipment credit. The formation of EXIM Bank in the early 80s marked another significant development towards improved financial flow for exporters. Export credit guarantees for banks and credit insurance for exporters are available from the Export Credit Guarantee Corporation (ECGC).

6. Subsidies on Domestic Raw Materials

There are also schemes for refunding to exporters the difference between the domestic and world prices of Indian materials. The most important is the International Price Reimbursement Scheme (IPRS) for steel. The scheme was introduced in 1981. In 1986 this scheme was extended from basic steel products to alloy steels. There are also similar subsidy schemes, i.e., for other import raw materials such as aluminium and copper.

Performance of EXIM Policies (1950-1989)

A review of the main elements of India's system of import controls and export incentives shows that in the course of time, the exim policies have undergone fluctuations in terms of stringency for import control, and have become increasingly comprehensive for export promotion. Of course, this does not mean that the policies have become fully effective in terms of the stated objectives.

The shrinking share of India's exports in world exports, the relatively low share of India's trade in GDP, widening trade deficit, growing external debt, continued deficits on current account which, in turn, among others, led to the balance of payments crisis in 1990/91 etc., show that India's exim policy till the 90s, did not make any significant contribution to the growth of its external sector on desired path. India could neither achieve self-sufficiency nor could its industry become internationally competitive. Industry suffered from technological obsolescence and high cost due to prolonged protection from both internal and external competition.

15.7 EXIM POLICIES IN THE 90s

EXIM Policy, 1990

After terminating the Exim Policy for 1988-91 a year in advance, the Government announced on 30th April, 1990 a new Exim Policy. The Policy statement said : "Improvement in our Balance of Payments position can be achieved not so much through import curtailment as through promotion of exports". The Policy provided further momentum to exim policy liberalisation:

1. The OGL list was expanded to facilitate easy access to import of items, not available within the country.
2. A scheme of automatic licensing was introduced under which upto 10 percent of the value of previous year's license could be imported.
3. A scheme of Star Trading House was introduced for exporters with an average annual net foreign exchange earnings of Rs. 75 crore in the preceding three licensing years of the base period. Star Trading Houses are eligible for grant of special additional licenses calculated at the rate of 15 percent of net foreign exchange earned in the preceding year.
4. Under the Duty Exemption scheme, Blanket Advance Licensing has been introduced for manufacturer-exporters having a minimum foreign exchange earnings of Rs. 10 crore in the previous three yeas.
5. The Import-Export Passbook Scheme introduced in 1986 was withdrawn.

EXIM Policy Changes in 1991

In response to the balance of payments crisis in 1990/91, India launched a programme of economic reforms in June 1991. The economic reforms comprised wide ranging changes in trade policies, apart from industrial policies, etc.

High tariff walls and strict import licensing resulted out of the earlier policies had produced a domestic cost structure which was out of line with the world prices. To redress this situation and to augment exports which is crucial to the medium term recovery of the economy, adjustments in the exchange rate of the rupee were effected twice in July 1991. These adjustments are aimed at improving India's competitiveness in the world market and thereby boost exports. These exchange rate policy changes were followed by structural reforms in trade policy aimed at substantial liberalisation of controls and licenses, decanalisation of many items of trade, reduction in peak tariff rates, abolition of export subsidies and other measures.

It was during July-August 1991 that the Government announced far reaching changes in trade policy. These policy changes aimed at strengthening export incentives, eliminting a substantial volume of import licensing and optimal import compression. Essential imports of sensitive items (such as POL and fertilisers) were fully protected, but other imports of raw materials and components were linked to export performance through enlargement and restructuring of the replenishment licensing system. The system of cash compensatory support was abolished consequent upon the change in exchange rate and other measures of reform which provided substantial incentives for exports across the board.

The major policy changes introduced are :

1. The new trade policy made major changes in the import licensing system by replacing large part of administered licensing of imports by import entitlements linked to export earnings. The import replenishment system was enlarged and restructured and renamed as Eximscrips. Eximscrips are freely tradeable and the premium on the scrips, set by the market, represented a further incentive to exporters and a means of allocating imports according to market forces.
2. The system of advance licences, designed to provide exporters with duty free access to inputs, was strengthened further by simplifying and speeding up the process of issuing these licenses.
3. The procedure for import of capital goods was simplified following the Industrial Policy, 1991. New units and units undergoing substantial expansion would be automatically granted licences for import of capital goods without any clearance from the indigenous availability angle, provided their import is fully covered by foreign equity or the import requirement was upto 25 percent of the value of plant and machinery subject to a maximum of Rs. 2 crore.

   Import of OGL capital goods, non-OGL capital goods and Restricted goods would be allowed without a specific licence, provided clearance was given by the R.B.I. and foreign exchange for their imports are fully covered by foreign equity.
4. Foreign equity upto 51 percent in Trading Houses permitted, with all the benefits available to domestic export and trading houses.
5. The new trade policy aimed at progressive decanalisation. The Government decontrolled 116 items allowing their exports without any licensing formalities. Another 29 items shifted to OGL. In the case of imports, 6 items decanalised and placed on OGL while 16 items decanalised and listed in Appendix 3, where they will be available for import against Eximscrips.

6. Since EPZs/EOUs have not taken off as expected, the policy introduced several changes to promote them further. A significant new policy measure was that Domestic Tariff Area (DTA) sales was permitted in the ratio of 25 : 75 in relation to export sales in case of units whose use of indegenous raw material is more than 30 percent of production. In all other cases, the ratio of permissible DTA sales to export sales will be 15 : 85. By another policy measure, the International Price Reimbursement Scheme (IPRS) for supply of steel was extended to EPZs and EOUs.
7. The new policy abolished the Actual User requirement in respect of OGL capital goods and OGL raw materials and components.
8. The phased Manufacturing Programmes was abolished for new projects, and subsequently, for existing projects as well.
9. The trade policy indicated that customs duties would be reduced overtime, in tandem with improvements in the fiscal and balance of payments position. The peak tariff rates were reduced to a maximum of 150 percent from as much as 300 percent or more and a moderate across the board reduction in tariff on capital goods imports

EXIM Policy (1992-97)

On 31st March 1992 a new five year export-import policy was announced. This gave a further push to liberalisation by freely allowing imports of all items except a negative list, decanalising a large number of raw materials and further liberalising import of capital goods against export obligation:

- Import of all items including capital goods are freely allowed. The negative list will contain consumer goods, barring 28 specific items, and 70 other items, whose imports would be restricted.
- Import of a number of items including newsprint, non-ferrous metals, natural rubber, intermediates and raw materials for fertilisers decanalised. Petroleum products, edible oils, fertilisers and cereals continue to be on the canalised list.
- Exports of all items are free except a negative list.
- The scope of duty exemption scheme has been enlarged by introducing value based advance licenses besides the quantity based advance licences.
- Export houses, trading and star trading houses to be eligible for self certification under the advance license scheme which permits duty free imports for exports.
- The export promotion capital goods (EPCG) scheme liberalised further. Under the scheme, import of capital goods was permitted at 25 percent import duty subject to export obligation of three items the C.I.F. value of imports to be achieved over a period of four years.
- Keeping in view the important role played by the export promotion councils, exporters will continue to register themselves with these bodies. The registration-cum-membership certificates (RCMC) will continue to be an essential requirement for any importer or exporter to avail the benefits or concessions or to apply for any license.
- Under the new policy, certain categories of exports and exporters are eligible to receive special import licences.
- A significant aspect of the new policy is that amendments will be made once a quarter.

Thus the Exim Policy (1992-97), further accelerated the process of trade policy reforms.

EXIM Policy Changes (1992-93)

1. Liberalised Exchange Rate Management System (LERMS)

A new system of exchange rate management was introduced. As per this system, forty percent of the proceeds of exports and inward remittances was purchased at the official exchange rate by the Reserve Bank of India (R.B.I.) for official use. All other receipts and payments are converted at the market exchange rate. Receipts and payments on capital account continued to be subject to controls.

Imports under advance and imprest licences and replenishment imports against gems and jewellery exports were paid at official exchange rate to the extent of 40 percent of the import value. R.B.I. can enter the free market and intervene at its discretion. EPZs and EOUs were allowed to convert all their exchange earnings at the market rate.

The foreign exchange surrendered at the official exchange rate was utilised to import essential items. All other imports of raw materials, components and also capital goods are made freely importable on OGL but foreign exchange for these imports has to be obtained from the market.

The new system was introduced as a transitional arrangement towards a unified exchange rate with current account convertibility. The system simplified the trade policy by eliminating detailed exchange control.

2. Import Licensing Liberalisation

The introduction of LERMS led to abolishing eximscrips as LERMS made all capital goods, raw materials and components freely importable subject to tariff protection and the imports have to be paid by obtaining foreign exchange from the market. In April, 1992 the negative list of licenceable imports was pruned substantially : three import items banned, 71 items restricted and seven items canalised.

Under the new system, exporters benefited from the higher market rate obtained by surrendering 60 percent of the foreign exchange earned at market rates instead of the premium earlier available in eximscrips.

3. Export Promotion Capital Goods (EPCG) Scheme

The scheme was further liberalised to allow imports of capital goods at a lower concessional customs duty of 15 percent subject to an export commitment equivalent to four times the C.I.F. value of imports to be achieved over a period of five years.

4. Improvements in Advance Licensing

A system of value-based advance licences has been introduced. This permits duty free imports of necessary raw materials and components upto a stipulated percentage of the value of indicated exports. Physical quantities and norms are not laid down for individual inputs. Self-certification advance licences are available for Export Houses, Trading Houses and Star Trading Houses.

5. EPZs/EOUs

These schemes have been liberalised and extended to agriculture, horticulture, acquaculture, poultry and animal husbandry. EPZ units and EOUs can sell upto 25 percent of their output in the domestic market on payment of duty and as long as the product is allowed to be imported.

6. Special Import Licences (SILs)

Certain categories of exports and exporters are eligible for SILs in order to enable them to import specified items which are on the restricted list. These licences would be freely tradable in the market.

7. Tariff Rationalisation

The Government, following the recommendations of Tax Reforms Committee, reduced the peak level of tariff to 150 percent in 1991-92 and further to 110 percent in 1992-93. Further, import duties on capital goods, project imports, basic feed stocks for petro-chemicals etc., were brought down.

Thus, the trend of trade liberalisation gained further momentum by 1993.

EXIM Policy Changes (1993-94)

In 1993-94, the EXIM policy gave a new thrust to exports for agricultural and allied sectors, and services in which the country has comparative advantage. Further reduction in customs duties, decanalisation, pruning of negative lists, expansion of the definition of capital goods, etc. are the other major features:

- Imports of Kerosene oil. Liquid Petroleum Gas (LPG), Low sulphur heavy stock/low sulphur waxy residue amongst petroleum products and phosphatic and potassic fertilisers are decanalised.
- EOUs engaged in agriculture and allied activities permitted to avail duty-free capital goods imports, even if they export only 50 percent output.
- Negative list of exports pruned by removing 146 items.
- A new EPCG scheme introduced for the services sector which permits import of capital goods at 15 percent import duty.
- Definition of capital goods enlarged to include sectors like agriculture, mining and services, apart from manufacturing.
- Change in the criterion for recognition as an export or trading or star trading house from net foreign exchange earned to gross f.o.b. value of physical exports. The award of Special Import Licences for these houses as well as for the electronic sector will also be based on this criterion.
- The maximum import duties were reduced from 110 percent to 80 percent. There were substantial reductions in customs duties on capital goods, ferrous and non-ferrous metals and chemicals.
- But the most significant development was the step towards current account convertibility taken in March 1993. The transactions on trade account were freed from exchange control. The determination of the exchange rate of the rupee was left to the market.

Thus, exim policy changes in 1993-94 gave a further fillip to the liberalisation process of trade regime.

EXIM Policy Changes (1994-95)

To promote exports and simplify import procedures, the following measures were taken during 1994-95 :

- Third party exports were given benefits under EPCG scheme.
- Scope of items importable under the Special Import Licenses (SILs) was increased.
- A new category of Super Star Trading Houses was created, which are entitled to membership of apex consultative bodies concerned with trade policy and promotion.
- Second hand capital goods with a minimum residual life of over 5 years were made fully importable by actual users.
- The peak customs duty rate was brought down to 65 percent. The reductions in import duty were especially sharp for capital goods.

EXIM Policy Changes (1995-96)

- The definition of consumer goods has been changed to suit the needs of importers, so as to allow them to freely import parts, components and spares of consumer goods as well. These were earlier restricted to the extent that these could be imported without a licence only by actual users. With the changes made, any person can import parts or components of consumer durables freely, without a licence and without actual user condition.
- The list of freely importable consumer goods has been further expanded to include 78 items.
- The list of goods permitted to be imported under SILs has been expanded further.
- An alternative route of the Pass Book Scheme for some categories of exporters has been opened. Basic customs duty credit is allowed to be given upon exports. These credits may be utilised for payment of customs duty against imports of non-negative items.
- The customs duty peak rate was lowered further along with import tariff reductions on various items.

In 1996-97, to accelerate the pace of reforms, the Exim Policy has been reviewed and revised in several ways. The objective is to further phase out quantitative and qualitative restrictions. A number of items from the negative/ restricted list has been permitted free for import and many others have been shifted to the list of items which can be imported under SILs. The peak customs duty rate was reduced to 50 percent.

The Union Budget (1997-98), further brought down the tariff rates on imports. The peak customs duty has been reduced to 40 percent. The duty on capital goods came down to 20 percent. Plans, designs and drawings have been completely exempted from customs duty. In addition, there are customs duty cuts on a wide range of commodities.

EXIM Policy Aligned on ITC (HS) Classification

Another significant development on the trade policy front in the 90s is that the exim policy has been aligned on the Harmonised System of Commodity classification. The Harmonised System (HS) of commodity classification, developed by the Customs Cooperation Council (CCS), Brussels has been in use the world over since the late 80s. India has adopted the system for Customs, Excise, Drawback and compilation of foreign trade statistics purposes. The first attempt to introduce the same system in the trade sector was made with the publication of Import Licensing Policy in two volumes in October, 1991. However, the radical changes in EXIM Policy (1992-97), reduced the utility of the document. The entire exercise was thereafter taken up afresh at the eight digit extended HS level, and the new Indian Trade Classification (ITC) has been brought out by 1996, with the following objectives :

1. Greater transparency in the import and export licensing policy.
2. Compatibility with the system of classification followed by Customs, Central Excise and the DGCI & S on Harmonised System of commodity classification.
3. Reduction in discretionary controls and areas of ambiguity and disputes on import policy matters.
4. Development of the basic module for computerisation and Electronic Data Interchange (EDI).

Activity 2

Meet an exporter located in your district and discuss the positive features of India's current exim policy. Prepare a note.

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15.8 EXPORT-IMPORT POLICY (1997-2002)

On 31st March, 1997 a new five year Exim Policy was announced. The policy carried further the process of trade liberalisation. The new Exim Policy has cut down the list of quantitative restrictions on imports, simplified procedures, reduced multiplicity of schemes, provided special incentives for agro and allied sectors and encouraged domestic sourcing of inputs. Some of the major features of the new Exim Policy are:

- The policy shifted 542 items out of the restricted list to the Special Import Licence (SIL) and OGL lists.
- About 60 items shifted out of SIL to OGL.
- About 150 items can now be imported against SIL.
- The policy has done away with the Value Based Advance Licence Scheme (Vabal) and passbook scheme and introduced a new duty entitlement Pass Book scheme.
- Under this scheme, the exporters will be issued a Pass Book. If he seeks this on pre-export basis, he would be given adhoc duty entitlement calculated at 5 percent of average f.o.b. value of exports in the preceding three years. This entitlement would enable him to import required inputs duty free.

On post-shipment basis, exporter shall be entitled for duty-free credits at notified rates. He can make use of this to import any freely importable item.

- The policy has revised the threshold limits of export obligation for the different categories of export/trading houses. The previous threshold limits and revised threshold limits for recognition alongwith SIL entitlement are presented in Table 15.3.

Table 15.3 : Export Obligation

(Rs. in crores)

	Export House	Trading House	Star Trading House	Super Star Trading House
F.O.B. 3 year average	20 (10)	100 (50)	500 (250)	1500 (750)
Net Foreign Exchange (N.F.E.)	16 (6)	80 (30)	400 (125)	1200 (400)
F.O.B. preceding year	30 (15)	150 (75)	750 (300)	2250 (1000)
Net Foreign Exchange preceding year	24 (12)	120 (60)	600 (150)	1800 (600)
SIL (%) F.O.B. basis	6 (4)	8 (5)	10 (6)	12 (11)
SIL (%) NFE basis	7.5 (6)	10 (8.5)	12 (11)	15 (16)

**Figures in brackets present previous limits.*

- Quantity based advance licence scheme (Qabal) will continue.
- The duty payable under the Export Promotion Capital Goods (EPCG) scheme has been reduced from 15 percent to 10 percent.
- EOUs/EPZ units in the agro sector will be allowed to sell 50 percent of their output in the Domestic Tariff Area (DTA) without stipulation of any value addition. These units are allowed to import equipments of Rs. 5 crore and above under zero duty EPCG scheme.
- The Special Import License (SIL) entitlement of exporters holding ISO 9000 series has been increased from 2 percent of f.o.b. to 5 percent of f.o.b.
- The export obligation period under advance licence has been enhanced from 12 months to 18 months and similarly the validity of advance license has been enhanced from 12 months to 18 months.
- The value limit for advance licence under production programme basis has been increased from 25 percent of average f.o.b. value of exports to 100 percent of average f.o.b. value of exports so that an exporter could obtain advance license at one go for his requirements and need not go to the Regional Licence Authorities again and again.

The Exim policy has been welcomed by the industry in general and exporters in particular. The simplification of procedures, reduction in duties, pruning of negative list, incentives to promote exports, etc. together are directed to step up the growth of exports.

15.9 EXPORT-IMPORT POLICY (2002-07)

The new Export and Import (EXIM) Policy framed for the period 2002-07 and unveiled on 31 March, 2002 also seeks to usher in an environment free of restrictions and controls (Annexture I). Synergy between these policies/ strategies is expected to realize India's strong export potential and enhance the oveall competitiveness of its exports.

The Policy measures announced in the Union Budget 2002-03 included a comprehensive package for development of Special Economic Zones (SEZ) including entitlement by these Zones to procure duty free equipment, raw materials, components, etc. whether imported or purchased locally, further decontrol and deregulation of agriculture sector to encourage higher exports of farm products (with measures like decanalisation of export of agricultural commodities, phasing out of remaining export controls, setting up of more Agri-Export Zones in various states and enhanced incentives for export of food grains), de-reservation from small scale industry (SSI) provisions for over 50 items (of knitwear, selected agricultural implements, chemical & drugs and others) to facilitate higher investment, technology upgradation and exports from these sectors and fiscal measures for strengthening certain key industries (includng textiles, steel, non ferrous metals and IT industry) for improving their competitiveness and exports. The Budget announced a reduction in peak customs duty from 35 percnt to 30 percent and also provided an indication of further reductions/rationalization in these duties into only two slabs of 10 percent (for raw material, intermediate and components) and 20 percent (for final products) by 2004-05. A detailed roadmap has been recommended by the Finance Ministry Task Force on Indirect taxation for, *inter alia,* further reforms in areas related to customs tariffs, rationalization of export promotion schemes, trade facilitation and other changes in tax administration (Annexure II).

15.10 TRADE POLICY REFORMS

It is now widely acknowledged that major reforms in trade policy and procedures since the EXIM Policy (1992-97) announced in 1992, have stepped up the transitional process of Indian economy towards globalisation by encouraging exports and permitting imports of essential inputs as well as capital goods.

A major objective of the EXIM Policy (1992-97) and the subsequent changes introduced during the last five years was to phase out quantitative restrictions in the form of licensing and other discretionary controls. Another significant objective was to continuously scale down the tariff barriers. To a large extent, these objectives have been met :

- In 1991, imports were regulated by means of a positive list of freely importable items. Since 1992, imports are regulated through a limited negative list, which has been consistently pruned year by year.

- Quantitative restrictions on imports of most intermediate inputs and capital goods have been eliminated.

- In July 1991, out of 5021 Harmonised System (HS) tariff lines (6 digits), 4000 lines were subject to import licensing restrictions. As of December 1995, more than 3000 tariff lines covering raw materials, intermediates and capital goods are free of import licensing requirements.

- A large number of items covering 1487 tariff lines whose import is otherwise restricted, are now allowed to be imported under freely tradable Special Imports Licences.

- Customs duty rates have been substantially cut down across the board, from apeak of 300 percent in 1990 to a peak of 40 percent in 1997.

The focus of these reforms has been on liberalization, openness, transparency and globalization with a basic thrust on outward orientation focusing on export promotion activity and improving competitiveness of Indian industry to meet global market requirements. In early 2002, the Government presented a Medium Term Export Strategy (MTES) for 2002-07 providing a vision for creating a stable policy environment with indicative sector-wise targets, with a mission to achieve one percent of global trade by 2007.

All these clearly shows that India is consistently marching towards globalizatioin by opening up its economy, by removing the importers as well as exporters from the clutches of unwanted controls and regulations and also by bringing down the tariff rates to that level comparable to international standards.

15.11 SUMMARY

India's trade policy has undergone remarkable changes since 1950-51. The objectives of achieving self-sufficiency, protecting domestic industry and balance of payments problems prompted the country to go for stringent import control regime through quantitative and non-quantitative restrictions. In the process, competitiveness of domestic industry suffered severely. Export promotion policies could not bring any significant turnaround in export growth so as to exceed imports. Consequently, balance of payments situation did not improve either. Rather, it only deteriorated in the late 80s, culminating in a crises in 1990-91.

The 1990-91 crisis led the country to adopt altogether a different strategy on the trade policy front, as part of its economic reforms. Since 1991, radical changes have been introduced in the trade policy through substantial removal of quantitative and non-quantitative restrictions, gradual but consistent reduction in tariffs, convertibility of rupee on current account, increased thrust on export promotion measures through infrastructural support, etc. All these have opened up the economy to international competition considerably. Though there has not been any significant change on the trade balance front, the overall balance of payments position has become comfortable since 1991. However, significant export growth in the range of 15 to 20 percent per annum, in dollar terms, has still remained a distant reality. Development of infrastructure such as power, telecommunications, roads, ports, railways etc. to reach the international standard alone, perhaps, will enable India to experience a significant turn-around in export growth. This is essential to improve India's trade balance, current account balance and balance of payments.

15.12 KEY WORDS

O.G.L. List : Items in the Open General Licence (OGL) list can be imported without a licence and without quantitative restrictions, but with the payment of existing customs duties.

c.i.f. : Cost, insurance and frieght are charged in full.

Ad valorem duty : Duties are imposed in proportion to the value of items.

F.o.b. : Free on board. A term given to the system of paying for goods shipped from or to another country when the amount is sufficient to only to cover the value of the goods and excludes insurance and freight.

15.13 SELF ASSESSMENT QUESTIONS

1. Distinguish between free trade and protection. Analyse their relative merits and demerits.
2. Discuss the merits and demerits of free Vs. protection for a developing country like India.
3. Analyse the different phases in the evolutionary process of foreign trade regime for a developing country.
4. Describe the major features of India's import regime till the 90s and their consequences.
5. What are the salient featues of India's export policies during 1950-91? Do you justify those export incentives? Why?
6. Analyse the trade policy reforms implemented by India in the 90s? What are its implications?
7. Why India should go for globalisation? What are the advantages and disadvantages?
8. The quantitative and non-quantitative import restrictions have been steadily scaled down in the 90s. In the process, Indian economy has been increasingly exposed to external competition. Do you think that the Indian economy, in general, and industry in particular can withstand and survive against the external competition in the medium to long run? Analyse in detail.
9. What is LERMS? What were its major features? What were its implications?
10. What are the advantages of current account convertibility of rupee? What are its long-term implications?
11. In what way trade policy reforms will contribute to enhancing India's competitiveness in the international market? Elucidate.
12. List out the major changes effected in India's exim policy in the 90s and its implications.

15.14 FURTHER READINGS

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Annexure I

Export Import (EXIM) Policy 2002-07

The Special Economic Zone (SEZ) scheme has been strengthened by permitting the setting up of offshore Banking Units, hedging of commodity price risks and sourcing of short term External Commercial Borrowings. Supplies by domestic units to SEZs would etitle the former to avail of Duty Entitlement Passbook Scheme benefit. The policy has also ensured procedural simplification in the process of subcontracting carried out by the SEZ units. To ease the power situation in and around the SEZs, units for generation and distribution of power have been permitted to be set up in the SEZs.

The Policy gives a major thrust to agricultural exports by removing restrictions on designated items. The efforts to promote exports of agro and agro-based products in the floriculture and horticulture sector have been sustained with the notification of 32 Agri-Export Zones across the country. Non-actionable subsidies such as transport subsidy have been provided for the export of fruits, vegetables, floriculture, poultry and dairy products. All Quantitative restrictions on exports (except a few sensitive items) have been removed with only a few items being retained for export through State Trading Enterprises. To improve the productivity and export competitiveness of small scale, cottage and handicrafts sector, the Policy provides a package of incentives, including exemption from maintaining the average export obligation under the Export Promotion Capital Goods (EPCG) scheme, permission to achieve a lower threshold level for achieving the Export House status, preferential access to Market Access Initiative funds and duty free access to trimming and embellishment for achieving value added exports. The towns of export excellence (such as Tirupur for hosiery, Panipat for woolen blanket and Ludhiana for woolen knitwear) are intended to be regional rural motors of economic development for the small scale sector, focusing on plugging critical infranstructural bottlenecks and enhancing quality of support services for industrial development.

To provide the necessary impetus to star achievers, EXIM Policy provides a strategic package for status holders comprising of new/special facilities like issuance of Licence on self-declaration basis, fixation of input-output norms on priority, exemption from compulsory negotiation of documents through banks, cent percent retention of foreign exchange in Exchange Earners' Foreign Currency account, enhancement in normal repatriation period from 180 days to 360 days and not mandating exports in each of the three licensing years for achieving the status. The Policy has operationalised the procedure for duty free import of fuel under the Advance Licensing Scheme, provided the license holder has a captive power plant.

In view of phasing out of all restrictions on textile products by 2005 under the Agreement on Textile and Clothing (ATC), the EXIM Policy has focused on measures to encourage value added exports in the garment sector. Electronic Hardware Technology Park (EHTP) scheme has been modified to enable hardware sector to face the zero duty regime under Information Technology Agreement (ITA-1), mandating only a positive net foreign exchange as a percentage of exports criteria and obviating any other export obligation for units in Electronic Hardware Technology Parks. The changes carried out in the gems & jewellery scheme include abolition of the licensing regime for the import of rough diamonds, reduction in the value addition norms for export of jewellery and permitting personal carriage of jewellery.

The medium term Policy continues with all the duty exemption/remission schemes, along with existing dispensation of not having any value caps. Procedural simplifications introduced in the policy include abolition of DEEC Book and withdrawal of Annual Advance License under the Advance License scheme, dispensation with technical characteristics for audit purposes under the Duty Free Replenishment Certificate scheme, 12 years export obligation period with 5 years moratorium for Export Promotion Capital Goods licenses of Rs. 100 crore or more and supplies under deemed exports to be eligible for export obligation fulfillment along with deemed export benefits.

Procedural simplifications have been made in the EXIM policy to further reduce transaction costs covering Directorate General of Foreign Trade, customs and banks. These include adoption of 8 digit commodity classification for imports which would eliminate the classification disputes, reduction of maximum fee limit for electronic filing from Rs. 1.5 lakhs to Rs. 1 lakh, introduction of same day licensing, new norms for reduction in percentage of physical examination of export cargo, introduction of the simplified brand rate of drawback scheme and permitting direct negotiation of export documents. Other salient features of the EXIM Policy 2002-07 include widening of the scope of the Market Access Initiative scheme to include activities considered necessary fora focused market promotion of exports, setting up of "Business Centre" in India missions abroad for visiting Indian exporters/businessmen for ensuring a facilitatory environment for exporters, tansport subsidy for exports to units located in North East, Sikkim and J&K and introduction of Focus Africa with Focus CIS to follow, to diversify markets.

Annexure II

Task Force or Indirect Taxation: Proposed Roadmap for Trade Reforms

The Finance Ministry Task Force (Kelkar Committee) or indirect taxes has suggested a roadmap for further reforms in, inter alia, areas like customs tariff and exemptions, customs procedures and trade facilitation, export promotion and improving automation and tax administration. On **Customs Tariff and Exemptions,** the Task Force has recommended, besides a zero duty for essential items, 10 percent duty for raw material, inputs and intermediate goods and 20 percent for final goods by 2004-05. Following introduction of State VAT, these duties are proposed to be reduced further to 5 percent (for basic raw materials), 8 percent (for intermediate goods), 10 percent (for finished goods) and 20 percent (for consumer durables) by 2006-07. The Task Force has refrained from suggesting any proposed rates for agricultural products since these products stand on a different footing. Suggesting reduction in multiplicity of levies, it advocates retention of only three types of duties (viz. Basic Customs Duty, Additional Duty of Customs and Anti-dumping/Safeguard duties) with all other duties being removed, with the removal of SAD being linked to implementation of State level VAT. Removal of all exemptions except in case of life saving goods, goods of security and strategic interest, goods for relief and charitable purposes and international obligations, has been recommended as a policy, with upfront budgetary provisions in other cases where relief is justified. End-use based conditional exemption should be avoided and if unavoidable, the confirmation of end-use should be done on the basis of selective post clearance checks by using risk assessment techniques. As a ageneral policy, there should be no exemption from countervailing duty and further there should be a move away from specific rates towards at valorem rates.

The Task Force has recommended systemic changes in **Customs Procedures and Trade Facilitation,** based onmodern best-practice which relies on self-compliance, risk analysis and management and is supported by periodic post audits of records. The recommendations in this direction include a universal green channel, expansion of EDI network to all ports and all processes, replacement of verification of self assessment of bill of entry by the importer, permission to file period bill of entry and permission to release imported goods at minimum documentation for importers with good track of compliance.Other recommendations for improved customs administration include availability of customs officers on holidays, especially at international airports, so that exports are not held up, framing of export valuation rules, permission for payment of customs duty through cheques, provision for acceptance of Export Obligatioin Discharge Certificate without delay, expansion of scope of confiscation provisions in respect of export goods to include non-dutiable goods as well as goods not covered under drawback scheme and suitable amendment to the Trade and Merchandise marks Act and the Copyrights Act to empower the Customs officers to enforce IPR. To ensure better service and accountability, suggestions have also been made to streamline the licensing and functioning of Custom House Agents.

Recommending doing away with multiplicity of **Export Promotion Schemes,** the Task Force has identified a viable export strategy to focus on Special Economic Zones (SEZ) and Export Oriented Unit (EOU) schemes for grant of duty exemption on all goods required for export production, Advance Licensing scheme to grant duty exemption to actual users oncapita goods, raw material etc., subject to post clearance intelligence and audit based verifications, and Drawback scheme to provide the mechanism of refund of duties. Access to Domestic Tariff Area (DTA) for EOU/EPZ units using wholly indigenous raw materials is proposed to continue at 50 percent on payment of central excise duty, and for other EOU/EPZ units, 100 percent DTA access to be allowed subject to payment of full customs duty on like goods, as if imported.

Improvements suggested in the drawback scheme include expansion in the scope of the scheme to provide for rebate of all duties and on all goods going into export production, modification in software to ensure amount of drawbacks blocked does not exceed the amount of drawback under dispute, acceptance by the customs of bank realization certificates as proof of realization and payment of penal interest by the Department on delayed drawbacks beyond one week. Duty Exemption Pass Book scheme should be merged with the Drawback scheme from April 1, 2005. Suggestions to facilitate better coordination between the Directorate General of Foreign Trade (DGFT) and the Customs include simultaneous notification of duty exemptions along with the policy announcement, use of EDI technology by DGFT and customs for exchange of information and setting up of an appropriate institutional arrangement to resolve the co-ordination problems between the two. Another important recommendation of the Task force relates to suitable strengthening of independent body such as the Tariff Commission to carry out investigations relating to injury determination, dumping margin, etc. relating to Safeguard duties and Anti-dumping duties.

The report on direct taxes has recommended continuation of the phase out programme for withdrawal of export related incentives under sections 80HHB, 80HHBA, 80HHC, 80HHE, 80-O, 80R, 80RR and 80RRA. It has also recommends elimination of tax exemption u/s 10A and10B of the Income Tax Act for all tax payers other than those engaged in manufacturing computer software.

The proposed reforms in indirect taxes are expected to reduce the transaction costs of Indian exports by around 50 percent, the potential gains to the economy being around Rs. 4000-5000 crores per annum. Such reduction in transaction costs is important not only for boosting exports and foreign direct investment but even for creating an appropriate framework for vibrant domestic business.